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Voluntary - Public

Date: 8/20/2009

GAIN Report Number: CH9614

China - Peoples Republic of

Post: Guangzhou

Shantou . . . South China's diamond in the rough

Report Categories:

Market Development Reports

Approved By:

Joani Dong, Director

Prepared By:

Evid Liu

Report Highlights:

Shantou has developed into a promising Emerging City Market (ECM) with potential for U.S. agricultural and food products, given its well-developed economy and applicable consumer base, not to mention commercial coverage of eastern Guangdong, southern Fujian and southern Jiangxi provinces. Shantou's nationally leading food processing sector and famous Chaozhou cuisine offer market niches for a range of U.S. ingredients, including dairy ingredients, dried fruit and nuts, seafood and beef, when available. Urban consumers purchase international brands at supermarkets, but availability of imported products are limited except for U.S. fruits and nuts. Educational and promotional commitment are needed to cultivate this promising emerging market.

General Information:

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I. Shantou, An Emerging Historical City

It was about one-and-a-half centuries ago when Shantou (also known as Swatow) first established for foreign trade. In 1860, Shantou was opened as a treaty port under the Treaty of Tien-tsin, signed between the Chinese Qing government and France, Britain and the United States. Afterwards, it became one of the key ports in China for imports and exports, with cargo turnover ranking one of the top three in the country. Eight countries, including the United States, Britain, France, Japan and other European countries even established consulates here.

Shantou is situated in northeastern Guangdong province, facing the South China Sea. It is a promising second tier city or “Emerging City Market” (ECM), due to its well developed economy, sizable consumer base as well as commercial coverage over the eastern Guangdong, southern Fujian and Jiangxi provinces. As one of the original five special economic zones in China (besides Shenzhen and Zhuhai, also in Guangdong province; Xiamen in Fujian province; and the entire province of Hainan), the city uses its convenient locale to its advantage and has attracted substantial foreign investment. However, its location outside the economically booming Pearl River Delta (PRD), specifically, between the regional economic centers of Guangzhou to the southwest and Xiamen to the northeast plus lack of flat land prevents Shantou from attracting as much foreign investment as cities within the PRD.



Shantou, located in eastern Guangdong

(Source: <http://www.travelchinaguide.com/cityguides/guangdong/shantou/>)

Shantou has economic relations with 165 countries. Over 50 multinational corporations and 11 of the world's top 500 enterprises have investments in Shantou. In the latest 2008 *Forbes Best Cities for Commerce in China*, it ranked 38th among 656 cities in mainland China, even outpacing many provincial capital cities in the country.

Shantou is an attractive destination for many domestic tourists. Long coastlines and comfortable subtropical marine climate, not to mention natural beaches, exquisite islands, marine scenery, plus the highly reputed Chaozhou cuisine, attract many vacation goers, especially those who want to relax. However, it is not a recognized magnet for international tourists despite its legacy as a culturally important city.

II. Strong Influence of Unique Chaozhou Culture

The Chaoshan region, comprising of Shantou and the neighboring Chaozhou, has strong local Chaozhou (also called “Teochow”) culture featuring its own dialect, which is close to Fujian’s Min-nan dialect, its own cuisine- Chaozhou cuisine - Chaozhou opera and music and its unique way of drinking tea, which are distinctive from mainstream Chinese

culture. According to *China Daily*¹, Shantou people, like other Teochew people, drink more tea than anyone else in China, to a tune of US\$ 100 million (RMB 700 million) each year.



Just a “few” side dishes that make up a Chaozhou meal
(Source: ATO Guangzhou)

Unity and entrepreneurship are important to Chaozhou culture. Dense population, scarce land and lack of resources such as power, drinkable water and mineral resources historically elevated the importance of commerce and trade and hard work. This prompted many to establish small businesses or to seek fortunes elsewhere. Shantou therefore became a primary hometown for many overseas Chinese. Shantou natives are scattered around the globe and can be found in more than 40 regions and countries around the world. Those who left the city often invest in and/or donate to their hometown and return to work with locals. The exotic culture they bring back to the city is then mixed with traditional culture, forming a unique local flavor.

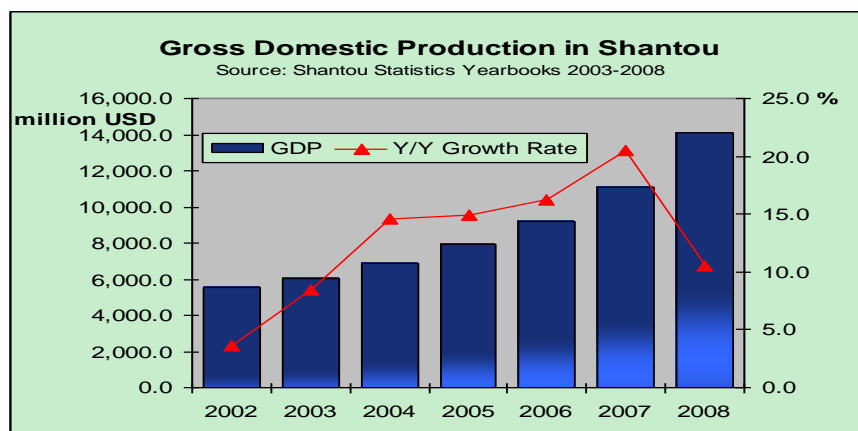
A kinship which binds people originating from the Chaoshan region, along with entrepreneurial spirit, have made domestic and overseas Chaoshan people successful in business, including the Hong Kong based tycoon, Mr. Li Ka-shing, originally from the Chaoshan region. Chaoshan culture still influences the business community in the region. Connections to the culture, for example, partnering with a Chaozhou born person who speaks the Chaozhou dialect and understands the Chaozhou culture, are key to doing business in this region.

III . Shantou at a Glance

This coastal city of 5 million next to Fujian province has one of the densest populations in the country – 6,283 per square mile. Meanwhile, it has one of the lowest per capita farmland levels in the country- only about 915 square feet (85 square meters²)

¹ http://en.wikipedia.org/wiki/Shantou#_note-1

² Calculation based on CY 2007 data, the latest full year available. Data source: *Shantou Statistics Yearbook 2008*.



The municipality of Shantou consists of six districts, i.e., Longhu, Jinping, Haojiang, Chenghai, Chaoyang and Chaonan, plus one county (Nan'ao). In past years, it realized robust economy growth at two digit rates. In CY 2008, its gross domestic production grew 10.5 percent from the previous year to US\$ 14.1 billion, and per capita domestic production exceeded US\$ 2,800 (*Please refer to Table 1 and the Chart above*).

Table 1. Shantou at a Glance

Shantou – Calendar Year 2007	
1. City Area	797 square miles, similar to the size of Atlanta, Georgia
2. Urban Area	741.0 square miles
3. Arable land	105,262 acres
3. Population	5.0 million, 9.6 times more than Atlanta, Georgia
4. Urban Population	4.5 million
5. GDP in 2008	US\$14.1 billion, up 10.5% from 2007. Per capita GDP US\$ 2,807
6. Per Capita Annual Disposable Income (urban residents)	US\$ 1,540 in CY 2007, up 7.0% from 2006
7. Per Capita Annual Food Expenditure	US\$ 626 in CY 2007
8. Hotels (star-rated)	3 five-star hotels, and 7 four-star hotels (refer to table 2 for listing)
9. Retail	International chains: <ul style="list-style-type: none"> • Wal-Mart (1 store) • Lotus (2 stores) Chinese regional chains: <ul style="list-style-type: none"> • Haokelong • Dongfang Kangning
10 . Restaurants	Numerous local restaurants at full price range, plus international chains, including: <ul style="list-style-type: none"> • McDonald's (9 restaurants) • KFC (7) and Chinese chain: <ul style="list-style-type: none"> • Houcaller (5)

(Source: Shantou Statistics Yearbook 2008 and ATO Guangzhou)

IV. Robust Economic Development

4.1 Economy

The city is eager to become an engine for the economy in eastern Guangdong, comprised mostly of industrial processing and manufacturing as well as services while primary agriculture accounts for a fragment. Textiles, garments, chemicals, plastics, foodstuff, toys and handicrafts, medicine, audio-visual products, have become pillar industries in the city. The municipal government has beefed up efforts to develop logistics, advanced manufacturing, infrastructure and port economy in addition to those well-developed industries.

The Chaozhou business spirit has spurred the private sector on to become the largest contributor to the economy. Privately owned business accounts for two-thirds of the city's gross domestic production. Official statistics show there are 1,600 private own enterprises among the total 2,100 above designated size³ enterprises in the city. In addition, there are numerous local small and self-employed business owners. In 2007, total industrial output by the private sector increased 19.3 percent from the previous year to US\$ 16.8 billion (RMB 115.1 billion).

The three million overseas Chaoshan people in more than 40 countries play an important role to boost development of the local economy. Over 90 percent of foreign invested enterprises in Shantou are invested by overseas Chinese business people of Shantou origin.

The city's rural population comprises only a fraction of the population. Fruits are grown here, mostly citrus, banana, olives and some lichee as well as vegetables (mostly Chinese varieties such as Chinese radish and cabbage) and rice. Expanded production of "lion head goose" was said to be in the works, valued for its big liver to make patee. Last year, just the goose head and neck was said to garner about \$60.00. However, the big agricultural money maker is seafood.



Shantou's old . . .

(Source: ATO Guangzhou)



and new

4.2 Three Economic Belts

A grand plan named *Three Economic Belts* has taken shape to develop three economic zones respectively in the north, south and northwest parts of the city, namely:

- ❖ *Industrial Economic Belt*, where further development will be in port facilities, fuel and power grids as well as industrial parks accommodating such industries as petroleum and chemical;
- ❖ *Urban Economic Belt*, which will become the new urban area for commerce, accommodation, education, recreation and public services; and the
- ❖ *Ecological Economic Belt*, planning for eco-related tourism and agriculture modernization.

Each belt targets specific investment themes, aiming to further open up and build up strategic hinterland for the city's development.

³ Above designated size enterprises are those whose annual gross industrial output exceeded US\$ 730,000 (RMB 5 million), source: www.sttj.shantou.gov.cn.

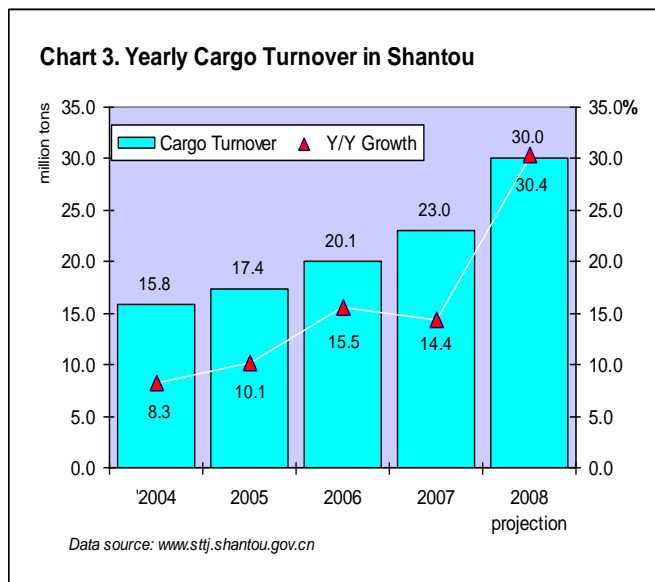
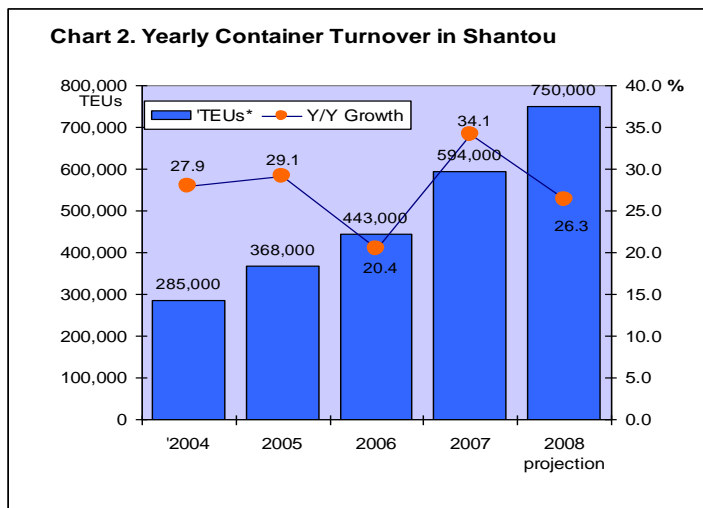
4.3 Infrastructure

Transportation by land, sea and air to Shantou are well-developed. It strategically serves as the ocean gateway for Eastern Guangdong, Southwestern Fujian and Southeast Jiangxi. It is also a center of commerce, finance, transportation and information for the region.

Land. Highway networks are well developed in Shantou, providing easy access to Shenzhen and Xiamen. It only takes three hours to drive to either city. Construction has started to connect Shantou with Kunming.

Shantou is also a stop for major railways including Guangzhou-Meizhou-Shantou Railway, Coastal Xiamen-Shenzhen Railway and the Beijing-Kowloon Railway.

Sea. Initially opened in year 1861, the port of Shantou was one of the first in China to serve international trade. With 16 berths of 10,000 Deadweight Tonnage (DWT) and above, Shantou became one of the hub ports in China's five coastal port clusters (*Refer to CH7609 for more details on ports in South China*).



Strong economy has dramatically boost the cargo and container turnover in the ports of Shantou (*See Chart 2 and 3*). Cargo ships connect the city to more than 268 ports

around the world. It also operates ferry services to many coastal cities in South China, including Hong Kong, Guangzhou and Hainan provinces.

Port authority management stated that the port of Shantou had the potential for 100 million ton turnover and that capacity exceeded 25 million tons. In 2007, there was 23 million tons cargo throughput. Naturally, it welcomes foreign investment to develop the port and share rights. Sea traffic is mainly to and from Southeast Asia. Outbound boats carry ceramics, including bathtubs, sinks, teapots, cups and vases. Cargo destined for the US are transhipped through Shenzhen, Xiamen or Hong Kong. Incoming vessels carry domestic bulk coal and grains.

Air. *Shantou Waisha Airport*, located eight miles northeast of the city center, operates 42 domestic and international flights bound for Thailand and Singapore, annually servicing three million passengers. A new Chaoshan Airport is under construction, and will be slated for operation in 2011. It will cover the neighboring cities of Chaozhou and Jieyang and annually handle 5 million passengers.

Governments at the municipal, provincial and even national levels continuously encourage favorable investment and infrastructure development, including port facilities, road and highway, as well as railway, aiming to boost the city as a leading trading and economic centre in the region of eastern Guangdong, Southern Fujian, Jiangxi and Hunan. Further development on infrastructure and investment environment will speed up the economy in the region in five to ten years.

V. Sectors Highlight

A number of sectors in Shantou are nationally leading edge which offer market potential for various U.S. products. Outsiders need to tap into the local network and develop close relations with Chaozhou associates to penetrate this market, as the Chaozhou dialect and culture limits open contact.

5.1 Food Processing

Shantou has a well-developed food processing sector for dried fruit, nuts, confectionary and seafood which can become a user of many high value U.S. ingredients. Shantou houses a large food processing industry with general yearly output of US\$ 880 million⁴ (RMB 6.7 billion), annually growing at a two-digit rate. There are about 1,000 sizable food processors and manufacturers, mostly centered in Jinping district, making a wide range of products including frozen seafood, cereal, powdered soy milk, biscuits, preserved fruits and vegetables, confectionary and health foods.



A shrimp product from Shantou for export

⁴ As of CY 2007, latest annual available data, source: Shantou Statistics Yearbook 2008

(Source: ATO Guangzhou)

Post was told the food industry was developing quickly and consolidation was increasing. U.S. pistachios and raisins were brought into Shantou over 20 years ago by one company interviewed. However, manufacturers stated price – the need to be both competitive and stable - is absolute key. Legitimate companies cannot compete with grey channel imports that avoid duties. Post was also told there was a lack of awareness about U.S. products which suggests that USDA cooperators need to make second tier cities more of a priority.

Companies have to reduce cost as well as packaging so they look into using substitutes. They spoke of the need to know standards, i.e., including Chinese ones as they can be much stricter than the U.S. for certain ingredients. They also stressed possessing certification that touted quality via international standards (ISO), using hazard analysis and critical control points (HAACP), and adhering to Good Manufacturing Practice (GMP).

Below outlines key food processing segments. (*For more information regarding food processing in China, refer to the GAIN report CH8609*).

5.1.1 Seafood Processing

Shantou has been China's leading seafood processing base for a long time, mostly shrimp, prawn, eel, tilapia and crabs for export markets. In CY 2007, Shantou exported 39,800 tons of processed seafood valued USD 218 million, accounting for most of the city's total agricultural exports, a 17 percent drop in quantity. Its export markets include the US, Canada, EU, Japan as well as Southeast Asian countries.

Like other Chinese seafood exporters, those in Shantou are challenged by anti-dumping tariffs ranging from zero to over 100 percent levied on their exports to the US. Industry sources indicated that since imposing the tariff, shrimp exporters have lost significant business.

Seafood processors have also been adversely impacted since 2007 due to increasing food safety concerns about seafood products processed in China. Reportedly, significant amounts of carcinogens and contaminants were found in several species of farm-raised fish and shellfish in China. In June 2007, the *U.S. Food and Drug Administration* (FDA) issued an import alert, though not an outright ban, on farm-raised catfish, basa, shrimp, dace and eel from China because of numerous cases of contamination with drugs and unsafe food additives. According to FDA, certain Chinese aquaculture products exported into the United States contained illegal substances prohibited in seafood sold in the United States, such as unapproved veterinary drugs. Despite such legitimate issues with certain Chinese seafood products, they accounted for a fraction of China's seafood exports. (*Refer to FDA's website for details:*

<http://www.fda.gov/Food/FoodSafety/Product-SpecificInformation/Seafood/ucm119105.htm>)



Shrimp processing, labor intensive

(Source: ATO Guangzhou)

Many Chinese exporters were concerned about future seafood exports to the U.S. market. To compensate for lost business from the American market, they are aggressively developing markets in the EU and Southeast Asia.

Experienced industry sources believed there is potential for U.S. seafood products, including squid, sardines and live lobster. Industry sources stated that Americans needed to be open to packing in smaller sizes since the Chinese tend to purchase according to immediate need. The current practice in the U.S. is to freeze fish in blocks. However, if such blocks were to sell to Chinese consumers, it would have to be defrosted then cut up which would significantly devalue the product and shorten shelf life. The Individually Quick Frozen (IQF) freezing system seems to offer a way to accommodate Chinese consumers.

5.1.2 Dried Fruit and Nuts

Shantou has a nationwide reputation as processing center for dried fruit and nuts. A wide range of nuts from affordable peanuts to premium pistachios and almonds are processed as snacks or as ingredients in large volumes to supply various markets across the country.

It houses many national brands, including *Jiabao*, *Fuwei*, *Maohuat* and *Yashili*. Many of them are already loyal users of U.S. products such as California almonds, raisins, pistachios and dried prune.

Dried fruit and nuts are popular snacks in China, appreciated for health attributes. Most dried fruit products are made with domestically grown fruit ranging from plums to citrus and tropical fruit. Processors in Shantou also import Californian raisins and dried plums, as well as tropical fruits (mango and pineapple) for further processing to supply the upper end market.



Dried fruit and nut snacks processed and packaged in Shantou

(Source: ATO Guangzhou)

5.1.3 Baby Food

Large food manufacturers in Shantou have started commercial production of baby food, mostly infant formula and dried rice powder (*mifen*) - not to mention soy milk for older consumers - as urbanization and demand for convenience grows.

This sector has created substantial demand for imports of dairy ingredients including powdered milk, lactose and whey which are essential ingredients for infant formula. Other ingredients that offer healthy or nutritional attributes may also consider penetrating into this sector. The robustly growing baby food market will benefit this group of producers who creates opportunities for such ingredients.

5.1.4 Confectionary

Most confectionary products from Shantou are sugar-based, targeting both domestic and export markets. A general market trend, say industry insiders, is that chocolates have a very limited presence but said to be growing in Chinese urban areas. City consumption has slowed while rural consumption has increased. Targeted consumers are children and teens. Holidays are key, especially the Mid-Autumn Festival (also called the Moon Festival) in mid- or late September and Chinese new year (also called Spring Festival), usually in January or February. Life cycles depends on quality, packaging, promotion and target customer. As sugar confectionary matures, manufacturers are keen to develop new products to boost sales such as developing more sugar-free products, fortifying with vitamins, using natural coloring and flavoring in response to health concerns.

5.2 Retail Sector

In 2007, the latest full year data available, the city retailed consumer products worth of US\$ 5.7 billion (RMB 43.7 billion). *Wal-mart* and *Lotus* (a large Thai retailer), the only two international retailers, sold US\$ 88.6 million (RMB 611 million) worth of products, a 11.4 percent increase than the previous year.

International retailers *Wal-Mart* and *Lotus* entered Shantou years ago and have gained tremendous popularity among the middle and upper classes. Thanks to strong consumer purchasing power, the *Wal-mart* store in Shantou ranks in the top ten in sales among all the *Wal-mart* stores in China.

Consumption for imported products, including fruit, wine and seafood has emerged among a growing number of urban high-income earners, though domestic products dominate. Despite high prices, consumers and the trade need to be educated and committed in order to penetrate this market.

Similar to those in primary cities, Shantou supermarket shoppers have strong purchasing power and appreciate high quality products. Increasing concerns about health and nutrition also boost sales of related food products. Organic products, including domestically grown beans, corn flour, babao moisture rice, sticky rice, brown sesame, beans and peanuts, have gained increasing popularity among supermarket consumers.

Retailers carried international brands made in China such as *Oreos*, *Maxwell House* coffee, *Quaker Oats*, *Skippy* peanut Butter or *Kellogg's* cereals made in Thailand.



Fresh fruit and seafood are the most popular imported items at Shantou retail stores

(Source: ATO Guangzhou)

Industry sources told Post there was limited presence of brands actually imported because they demand constant supply to maintain interest, and there are so many substitutable products. It was felt imported products have inconsistent supply as well as promotion. Further, there's a lack of market research regarding consumer taste and preference. It was advised, to be successful, a retailer has to find a product that doesn't compete against a Chinese counterpart.

One of the retailers indicated that consumers were familiar with selected imported high quality products, such as California table grapes, *Sunkist* oranges, Washington apples (all sourced from the *Jiangnian Wholesale Market* in Guangzhou) and California almonds which have been available in the market for years. Imported fruit could bring more than 50 percent increase during the spring festival. Post was told U.S. Northwest cherries would not



In a supermarket (left to right): Imported salmon; domestic organic grains, rice and beans; and international brands

(Source: ATO Guangzhou)

be profitable since air shipment would be required from Guangzhou to Shantou. Shantou customers like fresh, not frozen meat. For those products relatively new to this market, education and promotion are essential to increase consumers' awareness.

Underdeveloped sales channels hamper imported products from penetrating this market. Most imported products available in Shantou are sourced from large cities such as Guangzhou or Shenzhen. Only a few are directly imported to Shantou or from a local supplier. The geographic distance from suppliers located in primary cities somewhat distracts constant supply which in turn limits retail sales. A complaint was that because the Chinese market was so fragmented, it was necessary to go through many brokers. Product quality suffered with so much handling.

5.3 HRI Sector

The hotel and restaurant (HRI) sector is developing in Shantou. There are hotels and hostels of all standards at reasonable prices. The city is a center for business conferences in the region that feed business to upscale hotels (including three, five-star hotels, i.e., the Singapore invested *Meritus*, Hong Kong invested *Regency* and the domestic *Golden Bay*) and other upscale hotels. Improving transportation by rail and air will bring more visitors. Recreational locales in the city, such as malls, cinemas, restaurants, clubs, bars and coffee shops, have started to target wealthy young urbanites.

Post was told that imported fruit was not popular in high-end hotels because of the wide variety of local fruits already available in Shantou. As for imported meat, U.S. Angus, Norwegian salmon and New Zealand oyster had been purchased for a five-star hotel. Two week menu promotions had been conducted with Japanese, Korean, Portuguese/Macau, Anglo and German/Italian, but no American promotions had been implemented to date because of the perception that American cuisine was restricted to hamburgers.

Chaozhou style restaurants dominate the local HRI sector while foreign style cuisines still have limited presence. Customers in upscale restaurants are mostly wealthy local consumers, domestic and international business travelers. Local diners shy away from spicy flavors. Chefs in Shantou are all locally trained.

Local people prefer Chaozhou cuisine - a branch of Cantonese cuisines from the region. Most Chaozhou style dishes are uniquely cooked with seafood and various seasonings. A wide range of seafood products, from fish, shellfish, crabs and shrimp to expensive abalone and shark fins, are incorporated in innovative ways. In addition, poultry, beef and pork are also popular ingredients. These dishes taste fresh and light.



A western style restaurant

(Source: ATO Guangzhou)

U.S. seafood and beef, as senior HRI professionals suggest, could be a good match with Chaozhou cuisine for high income consumers that appreciate good quality. One five-star hotel carried wines from California, France, Australia and Chile supplied by a big wine broker and distributed from Xiamen.

Table 2. Star Rated Hotels in Shantou

	Hotels	Star Rating	Rooms
1.	Regency Hotel	5	542
2.	Meritus Hotel	5	318
3.	Golden Bay Hotel	5	389
4.	International Hotel	4	300
5.	Longhu Hotel	4	248
6.	CITIC Resort Hotel	4	156
7.	Chenghai Garden Hotel	4	270
8.	Chaoyang Hotel	4	183
9.	Jinjiacheng Hotel	4	188
10.	Jincheng Hotel	4	240

(Source: *Shantou Statistics Yearbook 2008*)

5.4 Wine

As for alcohol consumption, beer and liquor (both domestic and international brands) comprise most of the market, due to aggressive promotions. Wine consumption has just started from a small base, with Chinese brands such as *Great Wall* prevailing. Imported wines, mostly from Australia, Italy, South Africa and South America have gained a limited, but increasing presence.

More wine shops are opening. Wines are sourced from primary dealers in Guangzhou, Shenzhen and even Shanghai. Most wine traders in the market are local entrepreneurs who are secondary distributors sourcing from importers and primary distributors and selling in Shantou and the surrounding region of eastern Guangdong and southern Fujian.

A few nicely decorated wine shops have opened in commercial area to increase the presence of imported wines to upper class consumers. Most consumers in Shantou have limited knowledge about wine except for a vague notion about health benefits and associated luxury cache. Imported wines priced from US\$ 30-120 are best sold. Target consumers are high-income earners from the late 20's to early 50's. Education about wine and promotions are necessary to cultivate this emerging market.

Post was told that customers insist on bringing their own wine to hotels rather than buying at hotel restaurants. This is a practice that places restaurants at a disadvantage when trying to promote its wines. In KTV's and bars, beer and hard liquor are said to make up 98 percent.

VI. Best Product Prospects

To summarize, products listed in the table below show best potential in Shantou. Similar to other second city markets in China, education and promotions based on indepth knowledge of the market are essential to develop its consumer base..

Table 3: Best Product Prospects

Product	Sectors	Notes
Dairy ingredients	Food Processing	Shantou is one of the largest centers for food processing in China and produces a wide range of products, including snacks, crackers, seafood, confectionary and baby food. Many food processors based in Shantou have well-established sales networks across China, and some sell their products to foreign countries. It offers opportunities for many U.S. ingredients, including dairy ingredients, nuts and dried fruit.
Nuts		
Dried fruit		
Seafood	Food Processing and HRI	U.S. seafood at moderate prices with large supply from the US, e.g., squid and sardines, have potential to sell in the mass market after processing. Upscale restaurants look for high-quality pricey seafood such as King crab and wild salmon.
Beef (when allowed in)	HRI	Beef is one of the specialties in Chaozhou cuisine. Opportunities for U.S. beef come from high-end Chaozhou restaurant and the western restaurants which demand high quality products to serve wealthy consumers.
Fresh fruit	Retail	Increasing disposable incomes make fresh fruit more affordable. Imported fresh fruit have sold well due to superior quality, special taste and affordable prices.
Nuts and dried fruit snacks	Retail	Dried fruit and nuts are popular snacks in Shantou. U.S. products, including prunes, raisins, almonds and pistachios are processed and packaged by many Shantou food enterprises and sold via retailers nationally. Increased education about the health/nutritional benefits of these products, and retail promotion during festival seasons would boost the retail sales of these products.
Wine	Retail	Imported wines have limited but increasing presence in Shantou. Wine traders already started to develop this market by educating targeted high income consumers.

(Source: ATO Guangzhou)

Post Contact

U.S. Agricultural Trade Office (ATO), Guangzhou
14/F, Office Tower, China Hotel
Guangzhou, China
Tel: (+86-20) 8667-7553
Fax: (+86-20) 8666-0703
Email: atoguangzhou@fas.usda.gov
Web: www.usdachina.org

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